The Education Liquidity Fund

powered by Miles Capital

THE EDUCATION LIQUIDITY FUND LETTER

JULY 2018

EVENTS

July 18-20
IACCT Annual Conference

October 31
IASBO Fall Conference

HOLIDAYS

September 3
Labor Day

October 8
Columbus Day

PROFESSIONALS

ANITA TRACY
Senior Fund Services Administrator

DOUG EARNEY, CFA
Fixed IncomeTELF Portfolio Manager

WALT STUBBING, CFA
Fixed IncomeTELF Portfolio Manager

AMY MITCHELL
Director, Public Fund Services

GWEN GOSSELINK
Chief Compliance Officer

FUNDAMENTALS SHOULD WIN THE DAY, BUT RHETORIC HAS THE MINUTE

"Fixed income investors had plenty to digest during the second quarter which resulted in elevated market volatility. However, the fixed income markets ended the quarter with only a modest change in value given a host of competing drivers of performance. While macro events such as trade discussions and Federal Reserve (Fed) activity will continue to add uncertainty, the fundamental backdrop of the U.S economy continues to provide positive signals.

The Fed, observing the same economic indicators, increased rates a quarter of a percent at their June meeting and indicated a potential for two more hikes this year. These moves are pushing up short term interest rates while longer term rates have been more sluggish to move higher. The difference between short term and long term rates has narrowed to levels not seen in nearly a decade and is driving more investors to shorter-term securities. We believe this flattening of the yield curve is likely to slow in the coming quarters.

Interest rates, as measured by the 10 year U.S Treasury note, reached as high at 3.11 percent intra-quarter but ended the period only modestly higher at 2.86 percent. Shorter-term rates, as measured by the 2 year U.S Treasury note, rose considerably and ended the quarter at 2.53 percent, a ten year high.

Sector performance within the fixed income markets varied during the second quarter in response to the competing macro, fundamental, and interest rate dynamics. The Bloomberg Barclay's Aggregate index, a broad measure of the investment grade U.S. bond market, lost 0.16 percent for the quarter and 1.62 percent year to date. Most major spread sectors including corporate, municipal, and agency bonds underperformed similar duration U.S. Treasury securities for the quarter. Mortgage and asset backed sectors realized slight outperformance relative to similar duration Treasuries. Within the investment grade sectors, lower quality assets underperformed higher quality and longer duration underperformed shorter duration securities. Inflation linked securities experienced limited outperformance with the slight uptick in inflation expectations over the quarter.

We expect that macro news and events will continue to create uncertainty and volatility for the markets but that the solid fundamental backdrop will ultimately drive longer term sector performance and push interest rates higher. If the Fed becomes overly aggressive and raises rates too fast, that could be a risk to the economy and markets. But we believe the Fed will continue to be moderate in their approach. Our expectation of modestly rising rates likely means lower absolute fixed income returns ahead for investors, but we believe there are still opportunities to outperform through appropriate sector and security selection allocations. "

DOUG EARNEY, CFA
Director, Fixed Income
(515) 224-2703 | dearney@miles-capital.com

PARTNERS & SPONSORS

Iowa Association of School Business Officials

IACCT